

Reserve Fund & the Reserve Fund Study explained

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One of a Condo Board's most significant responsibilities is to oversee the current and projected financial health of the Condominium Corporation. They often do this in partnership with a Condominium Manager and Condominium Management Company. This is an important fiduciary relationship.

As per the [Condominium Act](#), all Condo Corporations must have an operating account and a reserve account (and these must actually be separate bank accounts, not just on paper). You can think of the Operating Account as a chequing account, and the Reserve Account as a saving account.

The Corporation's reserve account is used to set aside money for major repairs and replacements. To successfully prepare for future major expenditures, Condominiums must have a Reserve Account, the Corporation must maintain an up-to-date [Reserve Fund Study](#) (RFS for short).

So exactly how does a reserve fund work and what is it used for?

Let's start at the beginning...

What Is a Reserve Fund?

The Reserve Fund is the Corporation's savings to pay for future major repairs and replacements that are not addressed in the annual operating budget. Each month a percentage of the monthly maintenance fees collected from owners is moved from the operating account to the reserve account. The Reserve

Fund requires a special account that must have a reasonable amount of funds to remain accessible for emergency situations. To ensure enough money remains in the Reserve Fund, the Board must maintain updated [Reserve Fund Studies](#). Doing so will reduce risks and makes accurate projections for the most likely funding required for future anticipated expenditures. The future required funds can more easily be predicted using the RFS. It should be noted that Boards are permitted to use the reserve fund money to make guaranteed investments (investments where the capital is always guaranteed), so the money is actually earning higher interest.

What Is a Reserve Fund Study?

The Reserve Fund Study is the best tool to accurately determine the expected lifespan of various components, as well as future repair and replacement costs. The first study takes place after the first year of the property being up and running. Then every three years after the study will track the changes to the property's condition and adjusts the projections accordingly. For example, if a boiler needed replacement after ten years, but the original projection anticipated replacement at fifteen years, the newest RFS would be adjusted to reflect this replacement.

The RFS includes detailed information (often with photographs) of the following:

- All components of the property's common elements as well as individual unit elements such as balconies, backyards, etc.;
- Useful lifespan estimates to help determine when the need for replacement or repairs may arise;
- Projected estimates for the cost of each anticipated expenditure each year;
- Knowledgeable assumptions about future needs for repairs and replacements;
- Recommended reserve fund contribution amounts for each fiscal year;
- Recommendations for increased fund contributions over the next three-year period;

The RFS will be prepared by a reserve fund specialist; most often the Corporation's engineer. The Corporation's auditor will pay close attention to see if the Board is maintaining an up-to-date RFS, and if they are following the guidance provided



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in the RFS. If they are not, this will often be a note to the Owners in the audited financials. The study allows the Board and Manager to estimate the likely costs for future repairs. Condo Boards can maintain finances more successfully, so funds are always available when required.

What Does a Reserve Fund Cover?

Condo buildings and older properties will eventually require some major restoration work such as:

- Generator replacement
- Elevator restoration
- Exterior refurbishments for cladding, brickwork & balconies
- Window and balcony door replacement
- Roof replacement
- Boilers/Holding Tanks/Chiller/Cooling Tower
- Garage restoration
- Pool mechanical room equipment
- Playground equipment
- Fencing – wood, wrought iron, chain link, etc.
- Walkway improvements

As the property ages, it will require more extensive restoration work, and the RFS helps the Board keep track of upcoming projects and track the estimated costs, so that the funds will always remain available.

Operation Fund vs Reserve Fund

It can be confusing to determine what the reserve funds can and cannot be used for. Some common operating costs that cannot be paid for with the reserve funds are:

- Contracted services such as weekly landscaping/snow removal, security, cleaning contracts.
- Management fees, insurance, legal fees, auditor and account fees
- Utility expenses – hydro, gas, water, bulk cable or internet costs
- Day-to-day repairs and maintenance such as garage door repair, plumbing, electrical, locksmith, etc.

When in doubt, the Manager can always reach out to the auditor to ask.

Reserve Fund Studies are important

The reserve fund study will ensure that the individual needs of each property are going to be met as the building ages. As time goes on, more and more money will need to go into the reserve fund to ensure there are sufficient funds for all major repairs and replacements. If a Board neglects to follow the study, then it will not be possible for the reserve fund to cover the increased costs down the road. Future Owners may find themselves saddled with unfair special assessments. A successful reserve fund builds in gradual increases over the years, and successful Boards follow the RFS guidelines.



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